

LEGISLATIVE AUDIT COMMISSION



Review of
Department of Transportation
Year Ended June 30, 2006

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REVIEW: 4269
ILLINOIS DEPARTMENT OF TRANSPORTATION
YEAR ENDED JUNE 30, 2006

FINDINGS/RECOMMENDATIONS - 11

ACCEPTED - 2
IMPLEMENTED - 7
UNDER STUDY - 2

REPEATED RECOMMENDATIONS - 3
PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 21

This review summarizes the audit of the Illinois Department of Transportation for the year ended June 30, 2006 filed with the Legislative Audit Commission March 20, 2007. The auditors performed a financial audit and compliance examination in accordance with State law and *Government Auditing Standards*. The auditors stated that the financial statements were fairly presented.

The Illinois Department of Transportation is responsible for administering and supervising the State's transportation activities, including highways, public transportation and aeronautics. The Department is accredited by the federal government for receiving federal funds for transportation programs; is responsible for drafting a State Master Plan for transportation facilities; and also provides State assistance to local public transportation agencies. The principal divisions of the Department are the Division of Highways, the Division of Traffic Safety, the Division of Public and Intermodal Transportation, and the Division of Aeronautics.

Mr. Timothy W. Martin was the Secretary of the Department during the audit period. He had held that position since March 2003. When Mr. Martin retired in January 2007, Mr. Milt Sees was appointed Acting Secretary. Mr. Sees, a licensed engineer, joined IDOT as Director of Highways in 2006. The average number of full-time employees at June 30 in the years indicated appears below.

	FY06	FY05	FY04	FY03
Admin. & Planning	326	346	376	416
Information Processing	71	77	93	100
Division of Highways	440	469	525	571
Day Labor	21	22	23	27
District 1	1,250	1,348	1,423	1,506
District 2	451	469	485	505
District 3	406	430	448	462
District 4	359	380	391	408
District 5	406	421	433	452
District 6	429	453	468	478

	FY06	FY05	FY04	FY03
District 7	293	304	311	324
District 8	546	569	585	613
District 9	279	294	308	316
Aeronautics	65	67	74	79
Public Trans & Rail	30	22	21	25
Local Roads & Streets	93	96	98	111
Traffic Safety	103	107	119	131
Cycle Rider Safety	2	2	3	3
Intelligent Transportation	2	3	0	0
State Funded Positions	5,572	5,879	6,184	6,527
Federal Funded Positions	73	65	88	93
GRAND TOTAL	5,645	5,944	6,272	6,620

Expenditures From Appropriations

Appendix A presents a summary of appropriations and expenditures for FY06 and FY05. The General Assembly appropriated a total of \$7,542,403,136 (\$109,974,446 from the General Revenue Fund; \$3,105,081,473 from the Road Fund; and \$4,327,347,217 from 20 other funds) to the Department of Transportation during FY06. In FY05, total appropriations were \$7,476,691,530. FY06 appropriations were \$65.7 million, or less than 1% more than FY05.

Total expenditures were \$3,786,467,365 in FY06 compared to \$3,632,759,296 in FY05, an increase of about \$153.7 million, or 4.2%. Expenditures from the General Revenue Fund increased from \$53.7 million in FY05 to \$105.7 million in FY06. Road Fund expenditures decreased from \$1,263.8 million in FY05 to \$1,239 million in FY06. Expenditures from other funds increased from \$2,315.3 million in FY05 to \$2,441.7 million, or 5.5%.

In FY06 the increase in spending from GRF was due primarily from a new appropriation for ADA paratransit services. Expenditures from this appropriation were \$54.3 million. The increase in the State Construction Fund spending was due to eight ongoing projects. The decrease in Federal/Local Airport expenditures is due to the decrease in the number of projects started during the fiscal year. The reason for the decreases in the Transportation Bond Series A funds is expenditures on reappropriated projects are winding down.

The large difference between appropriations and expenditures was attributed to construction funds being appropriated for the entire project in the first year of construction although, in many cases, it requires more than one year to complete the project. Unexpended funds necessary to complete the project are then reappropriated in subsequent years.

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Lapse period expenditures were \$102 million, or 2.7% of total FY06 expenditures. The audit report stated that the Department expended \$472.3 million on 379 Illinois First Projects in FY06. The Department expended \$157.8 million on 461 Illinois First Projects in FY05.

Accounts Receivable

Appearing in Appendix B is a summary of the Department's accounts receivable. The Department's gross accounts receivable stood at \$230,870,000 as of June 30, 2006 compared to \$204,231,660 as of June 30, 2005. The majority of the Department's revenue collection responsibility in FY06 is current (\$211,987,000) and due from the federal government (\$152,698,000) for reimbursement for highway construction and the federal share of other programs. The \$18.4 million in receivables over 30 days old consists of about \$13.1 million due from various counties and municipalities. The remainder consists of damage claims, rents, consultant billings and other receivables.

Cash Receipts

Appendix C provides a summary of cash receipts for the Department for FY06 and FY05. Cash receipts increased \$134 million, or 11.9%, from \$1,125,849,967 in FY05 to \$1,259,918,496 in FY06. Cash receipts in the Road Fund were almost \$150 million more in FY06 than in FY05 since the increased level in spending for construction projects resulted in an increased billing to the federal government. Receipts decreased in the Federal/Local Airport Fund (-\$30 million) since federal revenues are based on project expenditures and there were fewer active projects in FY06. The increase in receipts in the Federal Civil Preparedness Fund (+\$5.3 million) was due to an intergovernmental agreement between IDOT and IEMA related to the Illinois Terrorism Task Force. There was an increase in receipts in the Federal Mass Transit Fund (+\$7 million) due to the two-year cycle on the purchase and receipt of new buses in FY06.

Property and Equipment

Appearing in Appendix D is a summary of property and equipment transactions of the Department of Transportation for FY06. The balance increased from \$14,090,200,000 as of June 30, 2005 to \$14,524,841,000 as of June 30, 2006.

Service Efforts and Accomplishments

Appearing in Appendix E is a list of several service efforts and accomplishments provided by the Department of Transportation.

Efficiency Initiative Payments

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CMS billed the Department \$375 for a procurement efficiency initiative in FY06 compared to \$321,000 in payments for FY05 and almost \$20.4 million in efficiency initiative payments for FY04.

Although not a part of the audit, \$9.6 million in funds was transferred from the Department during FY06 via funds sweep.

Accountants' Findings and Recommendations

Condensed below are the 11 findings and recommendations presented in the audit report. There were eight repeated recommendations. The following recommendations are classified on the basis of updated information provided by Ron McKechnan, Chief of Audits, Department of Transportation, via electronic mail received on July 10, 2007.

Accepted

- 1. Enforce current policies that require the approval or denial of all invoices by designated individuals within 30 days after receipt of the invoice and implement policies and procedures to ensure that interest, as required, is paid on invoices that are not paid within 60 days after the receipt of the invoice. (Repeated-2003)**

Finding: The Department did not always approve vouchers for payment in a timely manner, date stamp or sign invoices upon receipt, and where applicable, provided the vendor an interest payment when payment was not timely.

During the testing of 25 vouchers the auditors noted that eight vouchers were not approved within 30 days as follows:

- Contractual services – one voucher totaling \$179,534.43 was approved 38 days after receipt.
- Commodities – two vouchers totaling \$111,962.85 were approved 35 to 38 days after receipt.
- Telecommunications – two vouchers \$19,225.90 were approved 56 to 135 days after receipt.
- Operations of automotive – one voucher totaling \$9,905.93 was approved 35 days after receipt.
- Permanent improvements – two vouchers totaling \$125,293.70 were approved 35 to 114 days after receipt.

Nine vouchers had other problems as follows:

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- Commodities – 6 vouchers totaling \$107,271.87 did not contain a stamp/receiving signature.
- Lump sum – 1 voucher totaling \$26,648.00 did not contain an approval for payment signature of an authorized Department representative.
- Permanent improvements – 2 vouchers tested totaling \$239,489.70 were paid 61 to 114 days after approval. Interest had accrued totaling \$886.05 and was not paid.

The Department stated, for the instances noted, employees had not been mindful to process the invoices within the prescribed time limits, following the Departmental prescribed procedures as to date stamping and signing their review and approval, and making interest payment to vendor when due.

Updated Response: Implemented. The Department has procedures and policies for monitoring the payment of interest when applicable. The effectiveness of these procedures depends on the accuracy of the proper bill date.

A memorandum was issued to all Divisions and Offices on June 14, 2006 stressing the importance of timely voucher approval.

2. Maintain proper employee insurance certification and require all employees assigned to State vehicles provide a copy of their driver's license as required by Department policy. (Repeated-2005)

Finding: The Department failed to maintain proper employee insurance certification and documentation of driver's license for employee assigned automobiles.

During testing the auditors noted six of ten (60%) individuals tested did not submit the required annual insurance certification. The Department also failed to obtain documentation to ensure these employees had a proper driver's license.

The Department stated the failure was due to the Department's oversight.

Updated Response: Implemented. The Department's policy states that state vehicles are authorized for use only in the performance of essential travel duties related to the completion of official state business. For the instances noted, employees had not been mindful to obtain the required insurance information as needed.

On July 17, 2006, a Department-wide memorandum was issued for clarification purposes advising that individuals who have assigned vehicles provide the insurance certification along with a copy of their driver's license which is to be placed in their personnel file.

Accepted - continued

3. File professional service contracts exceeding \$5,000 to the Office of the State Comptroller in a timely manner.

Finding: The Department did not file all professional service contracts in excess of \$5,000 with the Office of the State Comptroller (Comptroller) in a timely manner. The auditors noted four of ten (40%) contractual agreements, for professional services, tested were filed with the Comptroller 87 to 100 days after execution instead of 15 days, as required.

The Department stated the contracts were not filed with the State Comptroller in a timely manner due to employee turnover in the position responsible for this task.

Updated Response: Implemented. The requisite late filing affidavits for these four contracts were all submitted to the Comptroller. The individual responsible for processing these four contracts at the time moved to another position in another Division within the Department. This change in personnel resulted in a delay in processing these contracts.

4. Develop formal inventory policies and procedures for all Districts/Sites and maintain commodities quantity and costing records throughout the year. Furthermore, perform periodic test counts of commodities inventory and reconcile those counts to commodities records. At a minimum, year-end physical inventories should be taken and the Department's records should be adjusted. (Repeated-1994)

Finding: The Department did not have formal commodities inventory policies or procedures in place as of June 30, 2006. In addition, the Department does not maintain a perpetual inventory system.

In the past, the Maintenance Management Information System (referred to as the "MMI System") had been used as the Department's perpetual inventory system. During the fiscal year, the Department deemed this system to be outdated and discontinued its use as the perpetual inventory system. The Department performed year-end commodities inventory counts at each location to determine the value of commodities inventory to be recorded for the financial statements. These counts were performed around June 30, 2006.

During year-end physical test counts, the auditors noted discrepancies between audit test counts and Department test counts resulting in an understatement of the year end inventory balance of \$261,519 which, when extrapolated over the entire inventory population, resulted in an estimated understatement of \$5,406,858. It was noted through inquiry, the Department did not count any commodities items with an estimated extended cost below \$500. The Department viewed these items as immaterial. The Department was not able to reconcile between audit test counts and Department test counts. The inventory amount reported on the Department's financial statements was \$33,812,000 at June 30, 2006.

During price testing, it was determined that a number of commodities at different locations were given equal pricing although commodity costs varied by location. In some instances

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it was also noted that inventoried commodities were not always listed in enough detail to determine what actual commodity was being valued and if the value was proper.

Updated Response: Implemented. During fiscal year 2006, the Department began development of new protocols to track commodities and perform year-end inventory counts. Subsequent to the release of the instructions relating to the new protocols and the performance of the year-end inventories, it was found that some personnel had unfortunately misinterpreted those instructions leading to less than complete and accurate information regarding those year-end inventory counts and valuations. The Department has since addressed these issues and is working to increase the accuracy of its commodities inventory records.

5. **Address the compliance requirement provided in the Act. If the Department concludes that compliance with the Act will never be met due to lack of funding and/or not needed due to the City of Chicago's monitoring activity, the Department should seek legislation to have the mandate rescinded.**

Finding: The Department failed to establish an operable permanent noise monitoring system.

Pursuant to the Permanent Noise Monitoring Act, the State was mandated to establish and operate a permanent noise monitoring system at airports with more than 500,000 aircraft operations per year. In the early 1990's, the Department solicited proposals from consultants and received an estimate of approximately \$1 million for the project.

The Act requires the Department to have an operable permanent noise monitoring system at each airport with more than 500,000 aircraft operations per year no later than December 31, 1992. The cost of the systems and of the permanent noise monitoring reports shall be borne by the State of Illinois. Beginning in 1993, the Department was to prepare and make available to the public an annual permanent noise monitoring report.

The Department stated they are not in compliance with this statutory mandate due to under funding subsequent to the effective date of this mandate. Due to failure of the State to provide the funding, the City of Chicago has since implemented and funded its own noise monitoring system.

Updated Response: Accepted. The spirit of the statute, enacted in 1992, is being met. No funds were ever appropriated in the past to conduct this noise monitoring. Subsequently, the City of Chicago established a noise monitoring office and has an active program that oversees O'Hare and Midway airports. The Department's Division of Aeronautics also administers Federal noise proofing grants. These noise proofing grants totaled approximately \$20 million in the last fiscal year.

Accepted - continued

In light of the continued uncertainty regarding the need for this mandate, the Department will necessarily be working to seek a legislative change.

6. Contact the Governor's office and pursue the status of the appointment of liaison to the Disadvantaged Business Enterprise Program Committee.

Finding: The Department's required appointment to the Disadvantaged Business Enterprise Program Committee (Committee) has never been made. In discussing the current Departmental appointment to the Committee, we were informed that the Governor has not made the Departmental employee appointment to date.

Updated Response: Under Study. There is no statutory requirement or mechanism providing the Department with the ability to make or compel appointments to this board or determine the establishment of the Committee. There has also been no violation of this statute by the Department. The Department will, however, make the appropriate contacts regarding the requirements of this statute to those parties responsible for establishing the Committee.

7. Comply with this mandate by completing and submitting the Safe routes to School Construction Program Report to the General Assembly by the required date.

Finding: During testing, the auditors noted the Department had not filed the Safe Routes to School Construction Program Report with the General Assembly, as required.

Updated Response: Implemented. The Safe Routes to School Construction Program is a new program being established. At the time the report was due, there had been no projects initiated so the requirement to report a list of funded projects to the General Assembly could not have been met, since no listing of projects was available to report to the General Assembly.

On November 17, 2006, the Department submitted a letter report to the General Assembly describing the current status of the Safe Routes to School Construction Program. Additionally, on December 27, 2006 the Department submitted a letter to the General Assembly reporting on the success of the Safety Routes to School Construction Program. The Department's goal is to file the report in accordance with the statutory requirement as the program develops and project listings become available.

8. Comply with the Personal Information Protection Act and establish adequate Department-wide procedures for properly disposing of confidential information. Once established, communicate the procedures to all Department personnel and enforce compliance with procedures ensuring all confidential information is kept secured until no longer needed and properly disposed.

Finding: The Department had not ensured adequate procedures exist for disposal of documents containing confidential and sensitive information.

We found the Department procedures for properly disposing of confidential information were not adequate and not always enforced. Specifically, while performing a walkthrough at the Department's main administrative location, the auditors discovered confidential, personal, and sensitive information in recycle bins. Personnel and sensitive information found included:

- Payroll reports including names and social security numbers.
- Employee timesheets, benefit statements, and bond statements that contained employee names, dependent names, social security numbers and home addresses.

The information was scheduled to be picked up by a vendor; however, the Department was unaware of the vendor's maintenance and disposal procedures to ensure confidentiality was maintained.

Department officials stated their efforts had not been comprehensive and there had not been a strategic focus to implement change in process and culture.

Updated Response: Implemented. The Department has established procedures to protect, dispose and securely store confidential information. The Department has implemented locked, secured containers for confidential information as well as provided procedures on proper disposal methods. In addition, disposal vendor's maintenance and disposal procedures will be reviewed for compliance with the procedures.

- 9. Update the Information Technology Policy to reflect the current environment and address current laws and regulations. Also, maintain a complete and accurate listing of servers and LAN topologies to ensure security issues are adequately addressed. Further, strengthen security parameters by reducing the number of users with security administration authority, requiring consistent password requirements for all users, deactivating terminated accounts on a timely basis, and ensuring servers are patched in a timely manner.**

Finding: The Department had not established adequate controls for securing its computer resources. The Department had established computer systems throughout the State in order to meet its mission and mandate. The Department processes and maintains critical, confidential and sensitive information on its computer systems.

During the review, the auditors noted the Department's Information Technology Policy, dated May 15, 2000, is over six years old and did not reflect the current environment or contain guidelines to address current laws. Additionally, the Department had not developed a security awareness program or conducted security training during the audit period.

Accepted - continued

In addition, during testing of computer security, the auditors noted:

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- A complete and accurate listing of all servers utilized by the Department was not maintained.
- Servers were not always updated with the current vendor recommended patch levels.
- A detailed Local Area Network (LAN) topology was not maintained: A high-level topology of the Wide Area Network was maintained; however, a detailed topology of each of the LANs was not maintained. As a result, we could not determine the placement of security devices.
- An excessive number of users had powerful security administration authority.
- Accounts with no password requirements.
- Accounts for terminated employees that were still active from two to 14 months after termination.

Updated Response: Implemented. The Department has updated its Information Technology Policy to reflect the current environment and address current laws. A computer security awareness training program has also been developed by the Department.

Since the consolidation of the infrastructure related to information technology (IT), the Department no longer has control over certain of these functions. As a result of the IT consolidation, Central Management Services, Bureau of Communications and Computer Services has taken responsibility for managing the servers, routers, LAN/WAN infrastructure, network policy, backup/archiving functions, user accounts, email administration, etc.

Beginning in 2007, IDOT's servers were moved to the CMS Data Center. As a result, the Department is acquiring an accurate and complete listing of servers. The Department will continue to work with Central Management Services to establish baseline controls for deactivating network accounts, password requirements and other related functions and policies. The Department will continue to work with Central Management Services to establish adequate controls, policies and procedures over computer security. The Department will work with Central Management Services to obtain the information necessary to ensure security issues are addressed.

- 10. Finalize, obtain management approval, and test the Business Continuity Plan. Also, perform and document tests of the Plan at least once a year. In addition, the Plan should be continuously updated to reflect environmental changes and improvements identified from tests. Further, ensure all of the Department's resources are adequately backed-up and stored in a distant and secure off-site location.**

Finding: The Department carries out its daily operations through the use of Information Technology. Computer systems that support the Department's mission include the Accounting Job Cost System and the Federal Project Control System. The Department had not updated its disaster contingency plans or performed recovery testing of its computing environment within the audit period.

The Department has utilized a decentralized approach and compiled twelve contingency plans for the restoration of its various computer environments. However, none of the plans

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were updated in the audit period and some were last updated in 1998. As a result, the plans did not accurately reflect the current computing environment and contained outdated information. Additionally, testing of the Department's contingency plans had not been conducted in the audit period. There were also identified weaknesses in the generation of backup media to promote recovery efforts, and weaknesses in the security and proximity of off-site storage locations.

Department management stated they are in the process of developing a Business Continuity Plan and plan to finalize and test the plan in 2007. The Department also stated the details and length of developing a business continuity process had resulted in outdated plans and lack of testing.

Response: Accepted. The Department has established a business continuity team to develop and test proper and adequate plans. The Department has notified CMS of our intentions to test the Business Continuity Plan. Plans are to finalize and test the plan in 2007. The Department is working with CMS to ensure adequate backups and distant, secure, off-site storage.

- 11. Ensure all interagency agreements are approved by an authorized signer prior to the effective date of the agreement. Additionally, take the necessary steps to increase monitoring of the billings and expenses submitted by the contractors and request refunds in instances where the Department determines that the contractor was overpaid. Further, require all interagency agreements include methodology supporting the percent allocations used for billing of shared services.**

Finding: During the examination of four interagency agreements between the Department and the Governor's Office of Management and Budget the auditors noted the following deficiencies during testing of four interagency agreements:

- None of the four (100%) interagency agreements tested were signed by all necessary parties before the effective date. The agreements were signed 125 – 321 days late.
- One of the interagency agreements pertaining to legal services did not include supporting documentation detailing the methodology used for determining the percent allocation to be paid by the Department for billing of shared services.
- One of the interagency agreements pertaining to actuarial reviews had payments prior to all parties signing the agreement totaling \$14,185.99.
- One of the interagency agreements pertaining to legal services had services invoiced prior to the effective date of the agreement totaling \$57.52.

Accepted – concluded

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- One of the interagency agreements pertaining to legal services had an overpayment to vendors for hourly billings of individuals providing services who were not previously identified in the contract totaling \$1,323.33.
- One of the interagency agreements pertaining to actuarial reviews had an overpayment due to the incorrect percent allocation being applied to the vendor invoice totaling \$421.85.

The Department stated that they requested additional documentation at the time that agreements were received, including the original contract and the allocation for the Department. Upon receipt of the additional information, the agreement was executed.

Response: Under Study. The intent of these interagency agreements is essentially for cost sharing for services to be performed by vendors contracting with the originating agency. It is the originating agency and not the Department that has the actual signed contracts with the vendors performing these services. It is the originating agency and not the Department who has the controlling administrative and legal authority for project management. Since the Department was not the originating agency for the agreements, it did not have the authority to ensure that the agreement was signed by all participating agencies prior to the effective date. Additionally, since the Department had no contract with the vendors performing the services, the Department had not assumed the authority for project management to review the vendor billings. However, the Department will work with the originating agency to ensure greater control over billings. The Department will also seek separate agreements with the originating agency beginning from the date of the audit to ensure that the agreement complies with the Auditors' recommendations.

The Department will ensure that it is only billed its portion of project costs as set forth in the percent allocations provided for in the interagency agreements. The Department will require the allocation methodology prior to entering into future agreements.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states, "The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies "involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage...prevent or minimize serious disruption in State services or to insure the integrity of State records.

The Chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make 'quick purchases', including but not limited to items available at a discount for a limited period of time."

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency

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purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General.

The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exception.

During FY05, the Department filed affidavits for 15 emergency purchases totaling \$575,345.15, as follows:

- \$ 372,177.40 for repairs,
- \$ 127,581.00 for training,
- \$ 35,957.58 for emergency traffic control,
- \$ 34,639.77 for emergency clean-up of spills and flooding, and
- \$ 4,989.40 for fuel.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

As of July 2006, the Department of Transportation had 912 employees assigned to locations other than official headquarters.